

MINUTES

JOINT LEGISLATIVE OVERSIGHT COMMITTEE ON TRANSPORTATION

November 9, 2010
10:00 AM
Room 1228, Legislative Building

The Joint Legislative Oversight Committee on Transportation met on Tuesday, November 9, 2010 at 10:00 a.m. in Room 1228 of the Legislative Building.

Representative Nelson Cole, Co-Chair presided.

The following members were present:

Senator Phil Berger	Representative Mitch Gillespie
Senator Richard Stevens	Representative Grier Martin
Representative Becky Carney	Representative Daniel McComas
Representative James Crawford	Representative Arthur William
Representative William Current	

Excused absences: Senator Steve Goss, Senator Neal Hunt and Representative Kelly Alexander

Staff members present:

Bob Weiss, Fiscal Research	Giles Perry, Staff Counsel
Karlynn O'Shaughnessy, Fiscal Research	Anne Murtha, Committee Assistant
Amna Cameron, Fiscal Research	Delta Prince, Senate Legislative Office

Chairman Cole recognized Ron Spann; Ernie Sherrell; Charles Harper; Reggie Sills and Bob Rossi of the Senate and House Sergeant-At-Arms Staff, and welcomed everyone to the meeting.

This is the first of three meetings to be held before session in January.

PRESENTATION

**Performance Audit - North Carolina Department of Transportation (DOT)
Heavy Equipment Fleet Management
Beth A. Wood, CPA, State Auditor
Terry Gibson, State Highway Administrator, Department of Transportation**

Summary: The Office of the State Auditor (OSA) recommended the following and the North Carolina Department of Transportation (DOT) concurred and are on target to put into place mechanisms to handle the findings of the audit. East Carolina University (ECU) did a study commissioned by DOT on heavy equipment use. This audit was the result of a comment from Representative Cole's constituent to consider ways to improve efficiency of DOT equipment usage.

Beth Wood: Purpose of the performance audit was to look at DOT treatment of heavy equipment and utilization rates of equipment. Results: DOT did not have heavy equipment utilization targets or expectations. DOT had the data for equipment use, but was not meeting target rates. Set up actions for equipment being sold, leasing equipment or renting equipment. Looked at six categories of equipment over a three year period. Ms. Wood reviewed the chart listed below.

– Part of a one page handout of audit results –

OSA Recommendation	DOT Response
DOT should establish performance measures or expectations for heavy equipment usage rates.	Temporary utilization goal of 50% set. DOT to revise based on East Carolina University (ECU) study results.
DOT should develop clear policies and procedures to assign responsibility for detecting underused equipment and for taking action once it is detected.	DOT will use the ECU utilization study to update policies and procedures in manual.
DOT should dispose of (transfer or sell) heavy equipment not meeting utilization targets. Reasons for keeping underused equipment should be documents and approved by central managers.	DOT set a new policy that any equipment used less than 15% should be disposed of or certified as being necessary by the Highway Administrator.
DOT should provide fleet management training to all equipment managers.	DOT agrees that training is necessary to ensure proper fleet management.

ECU Study (October 1, 2010) – Recommended Utilization Rates

- Tier 1 – Equipment used for day to day operational needs – 40% or greater
- Tier 2 – Spares and Backups – 20% - 40%
- Equipment used less than 20% should be targeted for removal from the fleet

Terry Gibson – PowerPoint presentation emphasizing the uniqueness of the NCDOT fleet. DOT has the largest state-owned fleet in the nation for the largest highway system in the nation. Replacement value of the fleet is \$633 million. DOT trained field engineers and fleet managers to track and accurately report heavy equipment usage. They consolidated several repair shops and reduced staff by 20%. Excess equipment was sold at public auction – 5,882 pieces sold for a total of \$24.3 million. Terry responded to the audit and the actions for DOT. They learned that DOT was not charging out the equipment usage to reflect accurate reporting. Overall impact will be a savings that will transfer back to road maintenance.

Representative Cole opened the floor for questions. No questions were asked.

PRESENTATION

North Carolina Department of Transportation (DOT) - Work Plan

Jim Trogdon, Chief Operating Officer, DOT

Mike Foxx, Board of Transportation Member - Division 7

Summary: Transportation reform. Public wants politics and uncertainty out of transportation decision making. Data driven process developed by DOT will allow them to realistically plan and effectively use limited resources more reliably and predictably.

Mr. Trogdon thanked Beth Woods for working with DOT on the audit. It is critical that we look at everything and ask the tough questions at every level of DOT.

He reviewed the funding summary for the timeframe: 2015-2020:

<u>Highways</u>	Total identified needs = \$45 billion Anticipated revenue - \$9 billion
<u>Non-highways</u>	Total identified needs = \$9 billion Available revenue - \$1.5 billion
<u>Summary</u>	Total identified transportation needs = \$54 billion Estimated available revenue - \$10.5 billion

Transportation Reform Framework: Policy to Projects – 20 year plan with outlined and defined goals. This schedule is on the NCDOT website. Open to public comment.

North Carolina Comprehensive Plan:

<http://ncdot.gov/performance/reform/default.html#STIPParts>

- NC Transportation Plan: **20 year**
 - Defining and adopting private-sector modeled policies
 - Board of Transportation will make policy instead of project selection to shrink/close the gap
 - DOT forecasting anticipated financial resources
 - Developing short and long term investment strategies
- Program and Resource Plan: **10 year**
http://ncdot.gov/download/performance/Program_Resource_Plan.pdf
 - Data-driven scheduling utilized (prioritization)
 - Allocates funds to meet the needs of taxpayers – charted over 10 years
 - Outline spending across divisions / functions using real data
 - Projects evaluated independently based on a score and tied to realistic dates and dollars. Public, local government and MPO/RPO feedback welcome
 - Process will be renewed and re-evaluated every 2 years
- Work Program: **5 year**
http://ncdot.gov/download/performance/Five_Year_Work_Program.pdf
http://ncdot.gov/download/performance/Policy_to_Projects.pdf
 - Comprehensive list of projects, programs and services
 - Reliable, stable and fiscally constrained

- 95% delivery rate – historically DOT had a 60% delivery rate
- Necessary changes will be in an open and transparent process and posted on the website

Objective: 5 and 10 year plans approved by the Board of Transportation by summer 2011. Mr. Trodgon reviewed the accomplishments and goals for the 21st Century Transportation Committee. Projects will be posted on the DOT dashboard down to individual projects and whether the projects were completed on schedule and on budget.

- Reduced payroll by \$60 million since 2008 (19% of the budget)
- Met all requirements of the American Recovery and Reinvestment Act of 2009 (ARRA) – received the highest rating on our audit by US DOT and the General Accounting Office
- Utilized new funding strategy (Design/Build/Finance) to leverage revenue
- Systematic change in communication with public/partners through all modes of social media – YouTube, Facebook, Flickr, Twitter and IPOD links to DOT
- Communication: Partnering with transportation groups and conducting 4 listening sessions across the state to improve DOT processes
- Increased private/public participation – small business program and contracting
- Mobility fund – first significant new revenue since 1989

Mr. Trodgon introduced Mike Foxx, Board of Transportation member, Division 7, Guilford, Alamance, Rockingham, Caswell and Orange counties, to explain from a board member's perspective how DOT is working to advance these priorities and issues across the state. Mr. Foxx thanked the staff for all their hard work putting the information together. One of his principle roles is to communicate with the citizens in his division about projects. DOT objectively ranks projects and allows local officials and planning organizations to provide input into project selection and transportation priorities. DOT is matching projects against cash flow which openly demonstrates how the *needs outweigh the funding*. DOT is open and interested in ways to speed up projects through local financing and public input in transportation needs. Prioritization ensures that the funding that is available is being spent on the most critical and beneficial projects for local communities. Hallmarks of this program are accountability and transparency – any member of the public or legislature can understand and see why one project ranks ahead of another on the DOT website. DOT is continually reaching out and committed to improving the process.

Representative Current inquired about incentives to fund/finish projects and possible legislation to raise revenue for projects. Jim Trodgon explained that North Carolina has the State Infrastructure Bank – initially funded at a \$10 million dollar level. Only a few communities took advantage of it for specific projects. Our local governments are still dependent on property taxes as their revenue source to pay their debts. North Carolina does not have a revenue stream to pay back the debt other than property tax. No one is volunteering to help fund transportation improvements through the State Infrastructure Bank.

Representative Carney asked about toll roads and target dates for the I-77 and I-95 projects. Jim Trogdon will get the information about I-77 and I-95 to Representative Carney.

PRESENTATION

North Carolina Department of Motor Vehicles (DMV) - Special Plate Issues Michael D. Robertson, Commissioner, DMV

Summary: North Carolina specialty plates should be standardized so that law enforcement and cameras can read them easily.

Mr. Robertson told the committee about two robberies at contract license plate agencies at closing time. The division is very concerned about both of these situations and the terrible injuries sustained by the contractors and agency staff. The Division is working with the Charlotte-Mecklenburg and Monroe Police Departments to solve these cases.

Specialty Plates

- 289 specialty plates have been authorized by the General Assembly
- 26 are NASCAR plates
- 15 are on full-color backgrounds
- 2 plates are on plain white background with blue lettering
- 140 plates are on the standard "First in Flight" background
- 106 additional plates have been approved by the Legislature but still need their required 300 applications.

The route of a specialty plate:

- After DMV receives 300 applications for the specialty plate, the group submits artwork to DMV. DMV will make a sample plate which must be approved by the State Highway Patrol and DMV.
- Turnpike Authority is researching the readability of specialty plates by toll road and red-light cameras. -- Some specialized plates are difficult for law enforcement to read.
- DMV is working with the Department of Corrections (who make North Carolina license plates) to produce standardized plates that are easier to read by law enforcement and cameras.

PRESENTATION

State Transportation Funding Debt Affordability Study Bob Weiss, North Carolina General Assembly, Fiscal Research Division

**University of North Carolina (UNC) – Kenan Flagler Business School
Brent Lane, Director UNC Center for Competitive Economics
G. Jason Jolley, Ph.D., Senior Research Director, UNC Center for Competitive Economics**

Summary: Session Law 2010-31, Senate Bill 897, Section 28.7 requires that the Joint Legislative Transportation Oversight Committee shall study the state's debt affordability for State transportation funding and that the Committee shall contract with The University of North Carolina's Kenan-Flagler Business School to complete a study comparing the State's transportation debt practices to those of other states with strong credit ratings and to make appropriate recommendations for the use of debt for strategic transportation projects. The UNC Center of Competitive Economics (C³E) proposes to undertake a multi-layer research project to answer these questions.

Bob Weiss presented a proposal for committee consideration to study debt affordability. In the 2010 budget bill, the General Assembly created the NC Mobility Fund which directed this committee to contract with the UNC Kenan Flagler School to study debt affordability for state transportation funding including comparing North Carolina practices with other states. The UNC study would review and critique the Treasurer's debt affordability study. The 2010 Treasurer's study was presented to this committee in March 2010 and concluded that North Carolina's transportation debt capacity has been more than utilized until fiscal year 2013. The UNC proposed study would examine the implications for bond ratings and debt affordability of DOT having the power to enter into debt or debt like agreements as DOT did to finance the 485 project in Charlotte in 2009. This was part of the studies bill by Rep. Crawford. The proposed UNC study would cost \$60,000 dollars, be completed in April 2011, money would come from the highway trust fund. To move forward, this committee would vote to approve this study, the chairs would sign off and then would go to the President Pro-Tem and the Speaker for approval.

Brent Lane reviewed the details of the UNC Kenan Flagler study.

Project Schedule and Budget

C³E propose that the work be performed under the terms of a firm fixed price contract of \$60,000 for a project term of 5 months running from December 2010 to April 2011.

Project Tasks

(Phase 1) Task One: "Debt Affordability Study" Verification and Alternative Measures

Schedule: Months 1 – 5

Budget: \$30,000

1. Study verification – examine assumptions and provide independent verification of study findings.
2. Measurements and metrics confirmation – determine whether instruments are common to similar studies conducted in other states. Relate the study metrics to the metrics used by bond ratings entities.
3. Alternative measures of fiscal health – examine additional and alternatives for "measuring, monitoring and managing" the State debt drawn from other states and academic research.

(Phase 1) Task Two: "Debt Affordability Study" Longitudinal Comparison

Schedule: Month 1 – 5

Budget: \$25,000

1. Comparison to other states – compare the findings from the study to the debt capacity level recommendation in peer states.
2. Review of differences – provide a review of differences among the states with respect to debt capacity levels.

(Phase 1) Task Three: Scope of Power of NCDOT to enter into debt and debt like agreements

Schedule: Months 2 – 5

Budget: \$5,000

1. Determine the implications of the NCDOT entering into debt or debt-like agreements on the state's bond rating and debt service costs?
2. Project additional debt accumulations based on multiple utilization scenarios and conventional debt instrument offsets.

Outcomes intended for this research:

- Identification, examination and validation testing of key assumptions and metrics in recent and prior Debt Affordability Studies
- Examination of how such assumptions and metrics influence Debt Affordability Study findings and how comparable alternative valid measures and/or interpretations could affect findings
- Transportation capacity outcome-based comparative analysis of North Carolina's bond rating and debt inventory to states with *highly rated transportation network* and *with similar bond ratings and/or debt inventories*
- National relational analysis of bond ratings, debt inventories and transportation infrastructure qualities
- Comparative opportunity cost analysis of multiple fiscal and economic scenarios for North Carolina transportation investment and debt inventories

Representative Gillespie –

MOTION: Delay any action on this [debt affordability study] to allow all members to have input on the scope of the work ~~through the chair~~ – amended to be **through staff** and bring it back up at the next meeting [Tuesday, December 14, 2010] for discussion or possible action.

Deadline for members to submit their input: Wednesday, December 1, 2010.

Second: Senator Stevens

Representative Martin: Committee members would like to see the results of the revised scope of work prior to the next meeting.

The meeting adjourned at 11:30 AM.

The next meeting will be Tuesday, December 14, 2010 at 10:00 AM in Room 1228, Legislative Building.

Senator Steve Goss, Co-Chair

Representative Nelson Cole, Co-Chair

Anne R. Murtha, Committee Assistant